

Message Text

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PAGE 01 PANAMA 06479 172122Z

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C O N F I D E N T I A L PANAMA 6479

E.O. 11652: GDS

TAGS: ECON, EFIN, PN

SUBJECT: ECONOMIC ANALYSIS OF PANAMA: PART II

SUMMARY OF PANAMANIAN NATIONAL DEVELOPMENT PLAN,
1976-1980

REF: (A) PANAMA 6268; (B) IBRD REPORT 1066A-PAN

1. THIS MESSAGE IS THE SECOND IN THE SERIES OF MISSION STUDIES
ON THE PANAMANIAN ECONOMY AND ITS FUTURE. IT SUMMARIZES CONTENTS
OF THE FIRST VOLUME OF THE PANAMANIAN NATIONAL DEVELOPMENT
PLAN FOR 1976-1980 IN ITS PRELIMINARY VERSION. A MORE DETAILED
DESCRIPTIVE AND ANALYTICAL AIRGRAM ON THE SUBJECT FOLLOWS.

2. THE PLAN ALLUDES TO A HIGH GROWTH, EXPORT-ORIENTED
DEVELOPMENT STRATEGY WHICH UTILIZES PANAMA'S NATURAL RESOURCES
AND LOCATIONAL ADVANTAGES AS THE BASES FOR NEW TYPES OF ECONOMIC
ACTIVITY TO BE DEVELOPED THROUGH A GREATLY INCREASED PUBLIC
SECTOR INVESTMENT PROGRAM. THE PLAN IS LARGELY A DESCRIPTIVE
COMPENDIUM OF POTENTIAL PUBLIC SECTOR INVESTMENT PROJECTS OF
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PAGE 02 PANAMA 06479 172122Z

WHICH THE MOST IMPORTANT ARE THE CERRO COLORADO COPPER MINE,

THE LA FORTUNA AND LA ESTRELLA-LOS VALLES HYDRO-ELECTRIC PROJECTS AND EXPANSION OF SUGAR PRODUCTION. TO CARRY OUT THE PROPOSED INVESTMENT PROGRAM, GORSS PUBLIC SECTOR CAPITAL FORMATION WOULD HAVE TO REACH A LEVEL OF 1,835 MILLION DOLLARS DURING 1976-1980, MORE THAN DOUBLE THE VOLUME OF PUBLIC INVESTMENT DURING 1970-1974. ACCORDING TO THE PLAN, 49.4 PERCENT OF THIS AMOUNT (OR 857.3 MILLION DOLLARS) WOULD BE FINANCED BY BORROWING FROM COMMERCIAL BANKS AND 22.6 PERCENT WOULD COME FROM NET SAVINGS ON CENTRAL GOVERNMENT CURRENT ACCOUNT. A SUMMARY ANALYSIS OF THE PLAN LEADS TO THE FOLLOWING CONCLUSIONS:

(1) THE PLAN IS MORE A POLITICAL DOCUMENT WRITTEN TO REASSURE ALL SEGMENTS OF PANAMANIAN SOCIETY RATHER THAN A TECHNICALLY SOUND PLANNING EXERCISE WHICH PROPOSES PRIORITY INVESTMENTS; (2) THE PLAN IS EXCESSIVELY AMBITIOUS AND CONTAINS MANY UNSUBSTANTIATED, UNREALISTIC ASSUMPTIONS; (3) THE GOP DOES NOT HAVE EITHER SUFFICIENT ORGANIZATIONAL AND MANAGERIAL TALENT OR ACCESS TO FINANCIAL RESOURCES TO UNDERTAKE THE PROPOSED INVESTMENT PROGRAM; (4) OVER ONE-HALF OF THE PROPOSED INVESTMENT PROGRAM IS ACCOUNTED FOR BY A FEW LARGE PROJECTS (COPPER, SUGAR AND HYDROELECTRICITY) WHOSE ECONOMIC FEASIBILITY HAS NOT YET BEEN CLEARLY AND DEFINITELY DEMONSTRATED; (5) THE GOP CANNOT REALIZE THE PROGRAMMED LEVELS OF NET SAVINGS ON CURRENT ACCOUNT AND THEREFORE THE INVESTMENTS MADE DURING 1976-1980 MUST BE FINANCED FROM A NET INCREASE IN AN ALREADY OVERBURDENED PUBLIC DEBT; (6) THE AMOUNT OF DEBT SERVICE AS A PERCENTAGE OF PUBLIC SECTOR CURRENT INCOME MUST THEREFORE INCREASE DRAMATICALLY -- SEE REF (A); (7) IT IS UNLIKELY THAT THE COMMERCIAL BANKING SECTOR WILL BE WILLING TO FINANCE GOP ACTIVITIES TO THE DEGREE STATED IN THE PLAN; (8) SINCE THE GOP CANNOT FULLY CARRY OUT THE PROPOSED INVESTMENT PROGRAM, THE REAL GROWTH IN THE GDP WILL BE MUCH LOWER THAN THE 6.7 PERCENT PREDICTED IN THE PLAN; (9) THE PLAN FORESEES PUBLIC SECTOR INVESTMENTS AS STIMULATING RENEWED INVESTMENT AND ACTIVITY IN THE PRIVATE SECTOR, BUT BECAUSE OF THE LIMITED CAPACITY OF THE PUBLIC SECTOR TO UNDERTAKE ITS INVESTMENT PROGRAM, PRIVATE SECTOR STAGNATION IS LIKELY TO CONTINUE FOR THE FORESEEABLE FUTURE; (10) BECAUSE OF PROBABLE DIFFICULTIES IN OBTAINING OTHER FUNDING FOR MANY OF THE PROPOSED INVESTMENT PROJECTS, CONFIDENTIAL

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PAGE 03 PANAMA 06479 172122Z

THE GOP MAY ATTEMPT TO LINK FINANCING FOR SOME OF THESE PROJECTS TO A NEW PANCANAL TREATY.

3. THE MORE DETAILED DESCRIPTION OF THE NATIONAL DEVELOPMENT PLAN WHICH FOLLOWS BY AIRGRAM WILL CONSIST OF THE FOLLOWING BASIC TOPICS: (1) DESCRIPTION OF THE PLAN'S CONTENTS; (2) THE PLAN'S OBJECTIVES; (3) PLAN'S TARGETS; (4) SOURCES OF FINANCING; (5) POLICY IMPLICATIONS; (6) ANALYSIS OF THE PLAN; (7) U.S.

ROLE (CANAL-CANAL ZONE, ETC.) IN PLANS IMPLEMENTATION.

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